

ARIZONA
MONTHLY FISCAL HIGHLIGHTS
April 2005

Summary

April General Fund revenue collections were \$1.02 billion, which was an increase of 33.5% above April 2004. This is the largest single month revenue collection in the state's history and only the second time monthly collections have exceeded \$1 billion. The April collections are \$160.8 million above the forecast for the recently enacted state budget.

Most of this gain was due to a 77% increase in individual income tax collections in April compared to a year ago as taxpayers filed their individual income tax returns by April 15. We speculate that this increase is due to the higher profitability of small businesses (which sometimes pay individual rather than corporate income taxes), real estate investment gains and, to a lesser extent, stock market gains.

While Arizona's April revenue growth is among the highest in the country, collections were much greater than expected throughout the nation. At the high end, New Jersey individual income tax final payments grew by 100%. Of 16 states surveyed, 8 had final payments grow by 30% or more.

This Monthly Fiscal Highlights includes a summary of the May JCCR and JLBC meetings. This report also contains information on recent federal funding issues, including the congressional budget resolution, new federally-mandated drivers license requirements and federal assistance to hospitals.

We have also expanded this edition of the Monthly Fiscal Highlights to include a summary of recent reports submitted to the JLBC. The Committee receives numerous reports each year from state agencies. While a summary of these reports is periodically provided to Committee members, we thought that these reports would be of interest to other legislators as well. For example, the JLBC recently received reports on the implementation of self-insurance for state employee health costs. Other material addressed the Community Colleges annual reports, the Executive's federal revenue maximization efforts and the Department of Revenue's new automation system.

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JLBC

APRIL REVENUES

Arizona is not alone in experiencing revenue collections above forecasted levels. Based on an April 2005 report from the National Conference of State Legislatures (NCSL), FY 2005 revenue collections in most states are performing better than expected. The report notes that 34 states have revised their FY 2005 estimates to reflect increased collections. It also notes that in many states, collections are exceeding even the revised forecasts.

Sales and use tax collections are above estimates in 21 states, and individual income tax collections are above forecast in 29 states. Corporate income tax collections were above forecast in 37 states.

As transmitted to the Governor, FY 2005 General Fund revenues above forecast would have been transferred to the Budget Stabilization Fund. The Governor line item vetoed that provision, so any “excess” revenues will remain in the General Fund.

Sales Tax revenue increased by 10.7% on a year-over-year basis in April and was \$5.1 million above the forecast for the month. Year-to-date collections are 10.3% over last fiscal year. The following is based on year-to-date collections through April:

- Retail sales tax receipts have increased by 8.7%.
- Contracting continues to exhibit the large increases begun last year, with a year-to-date increase of 19.5%.
- Restaurants and bars collections are up 9.1%.
- Use tax receipts (all of which are retained by the state) are up 12.7%. However, use tax receipts for the month of April were up only 5.4% compared to last year.

Individual Income Tax collections for April were 76.9% above last year, due largely to growth in final payments. Furthermore, April final collections exceeded the forecast by \$166 million.

As noted earlier, increased small business profitability and capital gains are thought to be the primary reasons for this unexpectedly large gain. Current individual income tax reports do not disaggregate small business filings nor do they list capital gains. As a result, the reasons for the large surge in

April final payments are not yet fully understood. The sources of this year’s “April Surprise” will be better understood once tax year 2004 state income tax data is released by the Internal Revenue Service (IRS) in the fall of 2006.

Arizona was not the only place to experience a rapid growth in April final payments. Federal income tax payments are reported to have increased by 40%. According to information provided by the Department of Revenue (DOR), the average growth in April payments was 30% for 16 states that participated in an informal survey. The result of this survey is summarized in the table below.

April Final Payment Growth by State

<u>State</u>			
Arizona	61%	N. Carolina	19%
Connecticut	24%	Nebraska	30%
Delaware	35%	New Jersey	100%
Iowa	3%	New York	12%
Kentucky	7%	Ohio	35%
Maine	35%	Oklahoma	18%
Massachusetts	25%	Oregon	31%
Michigan	15%	Pennsylvania	38%
		Vermont	54%

In terms of total liability (withholding, payments, refunds), individual income tax collections are up 27.5% for the fiscal year to date.

Corporate Income Tax revenue of \$101.1 million was only 3.8% over April 2004 collections. Corporate income tax collections begin to increase rapidly last April, which probably accounts for the small growth in April 2005 collections. The \$101.1 million in April revenues still represents a very healthy collection level. Despite April’s “slow” growth, year-to-date corporate collections are 46.8% over the previous year.

The General Fund portion of **Luxury Tax** collections for April was (18.2)% less than last April, decreasing the year-to-date total to 2.2% over the first 10 months of last year. The liquor categories of the luxury tax decreased by (36.1)% compared to April of last year. However, the tobacco tax component was up by 5.7% for the month. Year-to-date, tobacco tax collections are up 3.3% over the prior year.

General Fund Revenues				
Compared to Adopted Forecast and FY 2004 Collections				
(\$ in Millions)				
	<u>FY 2005 Collections</u>	<u>Difference From May 2004 Forecast</u> ^{1/}	<u>Difference From May 2005 Forecast</u> ^{2/}	<u>Difference From FY 2004</u>
April	\$ 1,015.9	\$ 189.5	\$ 160.8	\$ 255.1
Year-to Date	\$ 6,336.0	\$ 602.5	\$ 160.8	\$ 1,004.9 ^{3/}

1/ Originally enacted FY 2005 budget (May 2004).
 2/ May 2005 Enacted Budget.
 3/ Including the receipt of \$87.2 million federal cash assistance grant in October, 2003.

RECENT ECONOMIC INDICATORS

Preliminary estimates showed U.S. economic growth slowed earlier this year. **Real Gross Domestic Product (GDP)** advanced at a 3.5% annual rate in 2005's first quarter, down from 3.8% in the prior quarter. Increased exports and strong consumer spending were among the factors bolstering the growth rate.

The technology sector continued to perform well. **U.S. semiconductor billings** (three-month moving average) increased 4.0% in March. The Semiconductor Industry Association said that sales have continued to exceed expectations and that they would be releasing a revised industry forecast June 3. Sales were 7.7% above the level from a year ago.

The **U.S. Consumer Price Index (CPI)** climbed 0.5% in April, while the three-month moving average increased 0.7% and was 3.2% higher than a year ago. Excluding food and fuel costs, the core CPI was unchanged in April.

While the national economy is growing, consumer sentiment is less optimistic. The Conference Board's **Consumer Confidence Index** dropped (5.1)% in April, with the future expectations component of the index reaching its lowest level since July 2003. Meanwhile, the **U.S. Index of Leading Economic Indicators** declined for the fourth consecutive month in April. Although the production-related components

of the index improved, consumer expectations, interest rates, and vendor performance made negative contributions.

Arizona's non-farm employment increased 3.8% during the last 12 months, while construction jobs increased by more than 10%.

The Behavior Research Center's **Arizona Consumer Confidence Index** slipped (6.6)% in second quarter 2005, but remains 8.1% above last year's level.

Air traffic reached record levels in March. **Phoenix Sky Harbor airport passenger traffic**, (enplanements and deplanements combined) totaled 3.8 million, a 6.2% gain from March 2004. A strong tourism season and an early Easter holiday were among the factors fueling the increase.

The number of **TANF recipients** decreased to 101,029 in March, a (0.9%) decline from February and a (16.1)% drop from March 2004. The **AHCCCS caseload** increased in April. Enrollment was 0.6% higher than March and stood 11.8% above the level from one year ago.

The **Department of Corrections' inmate population** increased by an average of 46 inmates per month from February through April. With a population change of 878 inmates from a year ago, the department's average population growth reached its lowest point in more than two years.

RECENT ECONOMIC INDICATORS

<u>Indicator</u>	<u>Time Period</u>	<u>Current Value</u>	<u>Change From Prior Period</u>	<u>Change From Prior Year</u>
Arizona				
- Unemployment Rate	April	5.0%	0.3%	(0.2)%
- Jobs	April	2.46 million	0.5%	3.8%
- Contracting Tax Receipts (3-month average)	Feb-Apr	\$55.5 million	(4.5)%	21.5%
- Retail Sales Tax Receipts (3-month average)	Feb-Apr	\$141.6 million	(6.9)%	9.0%
- Residential Building Permits - (3-month moving average)				
Single-unit	Jan-Mar	6,053	7.8%	8.5%
Multi-unit	Jan-Mar	903	(6.6)%	70.0%
- Arizona Tourism Barometer	January	100.7	1.4%	6.4%
- Phoenix Sky Harbor Air Passengers	March	3.80 million	25.1%	6.2%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	February	\$6.18	13.4%	16.4%
- Leading Indicators Index	February	120.3	0.1%	1.5%
- Business Conditions Index (>50 signifies expansion)	April	66.7	(5.2)%	1.1%
- Consumer Confidence Index	2 nd Quarter 2005	97.4	(6.6)%	8.1%
- Business Leaders Confidence Index	2 nd Quarter 2005	62.8	0.8%	(7.2)%
- Arizona Personal Income	4 th Quarter 2004	\$168.6 billion	2.6%	8.3%
- Arizona Population	July 1, 2004	5.74 million	3.0%	3.0%
- AHCCCS Recipients	April	816,141	0.6%	11.8%
- TANF Recipients	March	101,029	(0.9)%	(16.1)%
- DOC Inmate Growth (3-month average)	Feb-Apr	32,617	46 inmates	878 inmates
United States				
Gross Domestic Product	1 st Quarter 2005	\$11.1 trillion	3.5%	3.7%
- (seasonally adjusted annual growth rate)				
- Consumer Confidence Index	April	97.7	(5.1)%	5.1%
- Leading Indicators Index	April	114.5	(0.2)%	(1.1)%
- U.S. Semiconductor Billings -(3-month moving average)	Jan-Mar	\$3.3 billion	4.0%	7.7%
- Consumer Price Index - (3-month moving average)	Feb-Apr	193.2	0.7%	3.2%

State of Arizona

General Fund Revenue: Change from Previous Year and May Forecast

April 2005

	Current Month					FY 2005 YTD (Ten Months)				
	Actual April 2005	Change From April 2004		Revised Forecast		Actual April 2005	Change from April 2004		Revised Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<u>Taxes</u>										
Sales and Use	\$332,806,103	\$32,058,922	10.7 %	\$5,125,700	1.6 %	\$3,013,501,676	\$282,110,985	10.3 %	\$5,125,700	0.2 %
Income - Individual	534,861,186	232,539,445	76.9	166,050,901	45.0	2,461,914,869	530,500,608	27.5	166,050,901	7.2
- Corporate	101,103,751	3,735,277	3.8	(8,961,403)	(8.1)	536,407,040	170,930,996	46.8	(8,961,403)	(1.6)
Property	1,581,596	(342,124)	(17.8)	151,579	10.6	16,742,674	(7,138,384)	(29.9)	151,579	0.9
Luxury	4,743,596	(1,053,894)	(18.2)	(1,089,825)	(18.7)	52,048,471	1,109,517	2.2	(1,089,825)	(2.1)
Insurance Premium	39,342,700	(25,166,502)	(39.0)	0	0.0	262,224,925	39,972,928	18.0	0	0.0
Estate	1,324,239	(1,489,041)	(52.9)	(700,761)	(34.6)	28,307,344	(3,865,589)	(12.0)	(700,761)	(2.4)
Other Taxes	99,887	9,946	11.1	(113)	(0.1)	2,483,924	(203,209)	(7.6)	(113)	(0.0)
Sub-Total Taxes	\$1,015,863,058	\$240,292,029	31.0 %	\$160,576,078	18.8 %	\$6,373,630,923	\$1,013,417,852	18.9 %	\$160,576,078	2.6 %
<u>Other Revenue</u>										
Lottery	1,942,800	384,600	24.7	(1,157,200)	(37.3)	24,271,200	(6,728,800)	(21.7)	(1,157,200)	(4.6)
License, Fees and Permits	3,206,492	(466,093)	(12.7)	(338,505)	(9.5)	23,812,233	2,523,805	11.9	(338,505)	(1.4)
Interest	2,756,407	1,285,320	87.4	2,510,832	--	19,438,463	(2,616,205)	(11.9)	2,510,832	14.8
Sales and Services	2,776,598	(511,445)	(15.6)	(1,384,381)	(33.3)	36,116,764	(3,599,272)	(9.1)	(1,384,381)	(3.7)
Other Miscellaneous	1,012,855	(3,752,850)	(78.7)	(3,619,478)	(78.1)	16,870,463	(16,507,818)	(49.5)	(3,619,478)	(17.7)
Disproportionate Share	0	0	--	0	--	0	(5,625,187)	(100.0)	0	--
Transfers and Reimbursements	5,270,207	5,195,793	--	4,193,707	389.6	44,220,011	(57,301,406)	(56.4)	4,193,707	10.5
Sub-Total Other Revenue	16,965,359	2,135,325	14.4 %	204,975	1.2 %	164,729,134	(89,854,883)	(35.3) %	204,975	0.1 %
TOTAL BASE REVENUE	\$1,032,828,417	\$242,427,354	30.7 %	\$160,781,053	18.4 %	\$6,538,360,057	\$923,562,969	16.4 %	\$160,781,053	2.5 %
<u>One-Time Revenue</u>										
Urban Revenue Sharing	(31,089,382)	(667,285)	2.2	0	0.0	(310,893,815)	(6,672,845)	2.2	0	0.0
Budget Balancing Transfers	0	0	--	0	--	0	0	--	0	--
VLT Transfer	14,114,889	14,114,889	--	0	0.0	106,089,168	106,089,168	--	0	0.0
Tax Amnesty	0	0	--	0	--	0	(15,080,406)	(100.0)	0	--
Judicial Enhancement	78,000	(726,575)	(90.3)	0	0.0	2,409,600	(2,979,700)	(55.3)	0	0.0
Sub-Total Transfers In	(16,896,493)	12,721,029	(43.0) %	0	0.0 %	(202,395,047)	81,356,217	(28.7) %	0	0.0 %
TOTAL REVENUE	\$1,015,931,924	\$255,148,383	33.5 %	\$160,781,053	18.8 %	\$6,335,965,010	\$1,004,919,186	18.9 %	\$160,781,053	2.6 %

VP% = Percent change from comparable period in prior year

VF% = Variance from forecast

F% = Forecast percent change for the fiscal year.

R% = Average percent change from comparable period in prior year which must be attained over remaining months to realize the forecast for year.

JCCR MEETING

At its May 10 meeting, the Joint Committee on Capital Review considered the following issues:

Pinal Community College District Bond Proposal – The Committee gave a favorable review to a \$435.2 million general obligation (GO) bond issuance scheduled for a May 17 election, with the provision that the Pinal Community College District return to the Committee for review prior to each actual bond issuance. The district plans to have 4 issuances, with an issuance occurring every 5 years. The first issuance is scheduled for FY 2006. Overall, the issuances would increase the secondary property tax rate by an average of \$0.54, peaking at \$0.94 in FY 2018 when the 5th and final issuance occurs. The major projects related to the bonding authority include 2 new campuses (San Tan and Maricopa) and renovation and expansion of the Superstition campus.

Yuma-La Paz Community College District Bond Proposal – The Committee gave a favorable review to the \$20 million GO bond issuance with the provision that the Yuma-La Paz Community College District submit the projects for the remaining \$53.9 million in bonding authority prior to the issuance. The Committee favorably reviewed the entire \$73.9 million proposal at its August 2004 meeting. The \$20 million issuance will be repaid over a 25-year period and is estimated to increase the secondary property tax rate by an average of \$0.13 over the life of the bond. The major projects related to the bonding authority include Science and Agriculture Complex buildings, Community Center buildings and campus infrastructure.

State Fair Building Renewal – The Committee gave a favorable review to the Arizona Exposition and State Fair (AESF) FY 2005 Building Renewal Allocation Plan of \$1,007,000, with the provisions that the AESF be able to use up to \$100,000 of the remaining \$240,400 as a contingency amount to complete submitted projects, and that AESF submit for committee review an allocation plan for the remaining \$140,400 if funds are allocated to new projects. The plan includes projects related to fencing, paving, roofing, light fixtures and cabling infrastructure.

ADOA Building Renewal – The Committee gave a favorable review to the Arizona Department of Administration's Revised FY 2005 Building Renewal Allocation Plan, which revised the cost of a Department of Corrections air handlers project from \$300,000 to \$100,000, and allocated \$812,000 for 6 new projects. The Committee has now reviewed the entire \$3.5 million building renewal allocation plan.

ABOR Office Leases – The Committee received the biennial report from the Arizona Board of Regents on all leases which exceed the average lease cost per square foot as determined by the Lease Cost Review Board (LCRB). The report noted that 30 of 168, or 17.8%, of FY 2003 and 32 of 186, or 17.2% of FY 2004 private leases approved by ABOR exceeded the LCRB rates of \$17.25 and \$18.25 per square foot, respectively.

JLBC MEETING

At its May 11th meeting, the Joint Legislative Budget Committee considered the following issues:

Attorney General – Review of the Allocation of Settlement Monies and the Use of Antitrust Enforcement Revolving Fund Monies – The Committee gave a favorable review to an allocation plan of settlement monies received by the state from 2 court cases. The first case involved violations of antitrust laws by Sempra Energy Company. The AG alleged that Sempra manipulated the supply of natural gas resulting in increased cost to Arizona consumers. Under the settlement, the company agreed to pay \$150,000. Of that total, \$90,500 will be deposited in the General Fund, \$49,400 will be utilized for legal counsel and \$10,100 will be deposited into the Antitrust Enforcement Revolving Fund.

The second case involved violations of the Arizona Consumer Fraud Act and Telephone Solicitation statutes by the Institute for Financial Advantage (IFA), who the AG alleges failed to deliver on promises of low-rate credit cards for consumers. As part of the settlement, IFA paid \$142,000 -- \$42,700 for restitution to 120 consumers and \$99,300 in fines to be deposited into the Consumer Revolving Fund.

In addition to the review of settlement cases, the Committee also gave a favorable review of an expenditure plan from the AG's Antitrust Fund. Statute requires that expenditures from the fund in excess of \$183,600 cannot be spent without a review by the Joint Legislative Budget Committee. The AG intends to spend \$126,400 above this cap -- \$55,400 for personnel costs, \$46,000 for operating costs and \$25,000 for Arizona's share of multi-state antitrust cases.

Department of Public Safety – Quarterly Review of the Arizona Public Safety Communication Advisory Commission – DPS submitted to the Committee for review FY 2005 third quarter expenditures by the Public Safety Communication Advisory Commission (PSCC) as well as a report on the state's progress towards a statewide interoperability project. Laws 2004, Chapter 275 appropriated \$5 million to DPS for the design costs of a statewide radio interoperability communications system and the use of Homeland Security monies. Of the \$5 million appropriation, \$2 million reverts to the General Fund if unexpended by June 30, 2005.

Third quarter expenses totaled approximately \$358,500. The Commission also entered into a \$150,000 agreement with an information technology firm to develop a document identifying the mission and objectives of a statewide interoperability communication system.

The project has fallen behind schedule according to DPS' original timeline submitted to the Committee in June 2004. As a result, the Committee requested that the next DPS quarterly report include an updated design timeline with specific goals and objectives for completion during FY 2006.

Department of Health Services (DHS) – Review of Expenditure Plan from the Vital Records Electronic Systems Fund – The Committee gave a favorable review to DHS' \$1.4 million expenditure plan from the Vital Records Electronic Systems Fund. The fund was established in 2002 to improve the state's vital records system. The monies from the fund will be used to digitize 5.2 million birth and death certificates currently in the state's vault of vital records. The digitization of birth and death certificates represents the final phase of the agency's Digital Record System (DRS) Project. In March 2004, the Committee favorably reviewed Phase I of the plan, which involved automating the state's vital records system.

FEDERAL FUNDS UPDATE

FY 2006 Budget Resolution – Congress recently passed its Federal Fiscal Year (FFY) 2006 budget resolution. This concurrent resolution provides the general structure for congressional consideration of its FFY 2006 appropriations, tax, and mandatory spending legislation. Although the resolution projects total spending to increase by 3.4%, domestic discretionary spending is projected to increase by 1.7%. After the passage of the resolution, Appropriations Committees in both chambers report subcommittee allocations. The House has passed its resolution and the Labor, Health and Human Services, and Education subcommittee would be virtually flat-funded. Because this subcommittee appropriates the bulk of state grants, increases for other non-state purposes (e.g., federal employee pay raises, increased health-research financing) would likely mean decreased state grants.

In addition to the potential decline in discretionary spending and states' grants, the resolution also includes a \$10 billion total reduction over 5 years generally assumed to be associated with Medicaid changes. The statement of managers for the resolution is clear that no Medicaid savings are assumed for FFY 2006. The Medicaid changes could be changes that reduce costs for both the federal government and the states or they could result in cost shifts to the states.

Federal Emergency Medical Assistance – Under the Emergency Medical Treatment and Labor Act (EMTALA), hospitals participating in Medicare must provide treatment to individuals that have an emergency condition, regardless of payment method and insurance status. A provision in the Medicare Modernization Act (MMA) sets aside \$1 billion through FY 2008 to recoup the uncompensated care costs of hospitals and other emergency providers that provide service to unauthorized immigrants. Two-thirds of the \$1 billion increase is distributed based on the relative percentages of the total number of unauthorized immigrants. The remaining one-third is allocated to the six states with the largest number of immigrant apprehensions for each fiscal year (of which Arizona ranks first).

For FY 2005, Arizona will receive \$45 million for these uncompensated care costs, which represents 18% of the total national distribution. Only California (\$70.8 million) and Texas (\$46 million) will receive more federal reimbursement

for emergency health services. These monies will be used to pay hospitals, certain physicians, and ambulance providers for the costs of providing services under EMTALA. Providers apply for the funding by documenting costs and sending invoices to the federal government on a quarterly basis. Adjustments will be made if the reimbursable costs exceed the state's \$45 million allocation. The state does not receive any of the money directly.

Because hospitals are not able to ask a patient if they are an unauthorized immigrant, "indirect" methods will be utilized, such as a foreign birth certificate or an identification card. The cost of providing emergency care to unauthorized immigrants in Arizona has been estimated to be between \$150 million to \$400 million annually.

Driver License Requirements – The Arizona Department of Transportation (ADOT) reports that the President signed federal H.R. 1268, the Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Tsunami Relief, 2005 Act, on May 11, 2005. The Act includes federal requirements regarding state issued drivers' licenses and identification cards. Federal requirements include the content and security features of the license, verifying documentation of an applicant's identity and lawful status, and issuing temporary licenses for certain lawful statuses. The Act also requires states to adopt the following practices in issuing licenses:

1. Capture and electronically store digital images of identity source documents,
2. Retain paper copies of source documents for at least 7 years or images for at least 10 years.
3. Photograph each applicant for a license.
4. Confirm or verify a renewing applicant's information.
5. Confirm an applicant's social security number with the Social Security Administration, resolve any discrepancy and take appropriate action.
6. Confirm that a person with a license from another state is terminating or has terminated that license, before issuing a new license.
7. Ensure the physical security of license production and of production materials and papers.
8. Subject all persons authorized to produce licenses to appropriate security clearance requirements.
9. Establish fraudulent document recognition training programs for appropriate employees engaged in issuing licenses.
10. Limit the period of validity of all non-temporary licenses to not more than 8 years.
11. Ensure that any license that does not satisfy these requirements clearly states on its face that it may not be accepted by any federal agency for federal identification or any other official purpose, and that uses a unique design or color.
12. Provide electronic access to all other states to information contained in the motor vehicle database of the state.
13. Maintain a state motor vehicle database that contains at a minimum all data fields printed on the license, and drivers' histories, including motor vehicle violations, suspensions, and points on licenses.

In general the requirements are effective beginning 3 years after the date of enactment. However, the Secretary of Homeland Security may grant an extension of the 3-year time, if the state provides adequate justification for noncompliance. States are required to enter into a memorandum of understanding with the Secretary of Homeland Security by September 11, 2005 to routinely use their automated Systematic Alien Verification for Entitlements system to verify the legal presence status of a non-United States citizen applying for a license.

ADOT reports that they are evaluating the requirements, but do not yet have an estimate of the implementation cost. The Act states that the Secretary of Homeland Security may make grants to a state to assist the state in conforming to the minimum standards.

SUMMARY OF RECENT AGENCY REPORTS

Arizona Department of Administration - Report on Automated External Defibrillators – A.R.S. § 34-401 requires the placement of an automated external defibrillator (AED) in all new and newly renovated state buildings. An AED is a medical device that can restore a patient’s normal heartbeat by applying a brief electric shock. Laws 2001, Chapter 308 appropriated a non-lapsing \$100,000 over the course of two years to install AED in state and local government buildings. The session law charged the Arizona Department of Administration (ADOA) with the installation of the AED and required the department to submit an implementation report by November 2001. The department completed the report on time, but took no action to install the equipment.

Staff brought the matter to the attention of ADOA in a letter dated September 27, 2004. In its response from October 5, 2004, the department stated its intention to create a Grant Review Committee, establish evaluation criteria, distribute information to state and local government agencies, and install the AED, with project completion no later than June 30, 2005. The letter also stated that the Grant Review Committee would provide quarterly reports.

Therefore, ADOA is reporting on the status of the AED project. The department received requests from 13 different government entities and agreed to provide 42 AED as follows: 1 to the Arizona State Lottery Commission, 5 to the Arizona State Hospital, 4 to the Arizona Game and Fish Department, 5 to county governments, 23 to city governments, and 4 to Yavapai Community College.

ADOA intends to use any monies remaining from the \$100,000 appropriation and up to an additional \$50,000 from the Risk Management Fund to fill the AED needs of the Capitol Mall and Capitol Police. Planned locations for these AED include the Executive Tower, the ADOA building, and each Capitol Police patrol car.

ADOA completed a solicitation for the AED order on April 29. The department will award a contract on May 6. The department reports that project completion is on schedule for June 30.

Arizona Department of Administration - Quarterly Report on Self-Insurance Regarding Health Coverage – At its May 25, 2004 meeting, the Committee gave the issue of self-insuring state employee health benefits a favorable review with the stipulation that the Arizona Department of Administration (ADOA) report to the Committee quarterly on the implementation of self-insurance including feedback from state employees and retirees. ADOA has provided its second quarterly report. The report covers October 1, 2004 through December 31, 2004, the first quarter of self-insurance operations. While the first quarterly report dealt primarily with open enrollment issues, this quarterly report focuses on demographic information.

Enrollment

As of February 28, 2005, there are 59,910 enrollees in the program. Of these 59,910 enrollees:

- 51,074 (85.3%) are employees and 8,836 (14.7%) are retirees
- 55,086 (91.9%) of the enrollees selected the Exclusive Provider Option (EPO) membership.
- 29,939 (50.0%) of the enrollees are in integrated plans

The membership by vendor is as follows:

Vendor	Enrollment	Percent
United Healthcare	27,801	46.4%
Schaller Anderson	14,716	24.6%
RAN+AMN (HMA)	11,699	19.5%
Arizona Foundation	3,029	5.1%
PacifiCare (retirees only)	2,138	3.6%
Beech Street (out-of-state)	527	0.9%
Total	59,910	100.0%

Administrative Fees

ADOA reports they paid premiums and administrative fees in the following amounts for both November and December 2004.

Vendor	Fees
PacifiCare (Medicare premiums)	\$ 456,000
Symetra/Safeco (reinsurance)	255,000
Harrington Benefits	385,000
UHC	680,000
Networks	120,000
Disease Management	360,000
Total	\$2,256,000

Arizona Department of Administration - Semi-Annual Report on Health Insurance Performance Standards – Pursuant to A.R.S. § 38-658(B) the Arizona Department of Administration (ADOA) is required to report semi-annually on the performance standards for state employee health plans, including dental plans. ADOA’s report contains vendor performance based on contractual measures and customer satisfaction as identified by complaints received by the ADOA Benefits Office. The annual customer satisfaction survey is scheduled for fall 2005. It should be noted, however, that ADOA did not conduct a customer satisfaction survey in 2004.

For the period of October 1, 2004 to February 28, 2005, ADOA measured performance on several different standards for its health insurance contractors: United Healthcare, Harrington Benefits, Walgreens Health Initiatives, RAN+AMN Network, Arizona Foundation Network, Schaller Anderson Network, and Schaller Anderson-Disease Management.

- *United Healthcare*: United Healthcare received 2,704 written appeals, of which 1,729 (63.9%) were resolved within 30 days. The time United took to answer calls to its telephone hotline varied from under 2 seconds in December to over 71 seconds in November. United exceeded its procedural and financial accuracy targets.
- *Harrington Benefits*: Harrington received 99 written appeals. For the 39 appeals they received through January 2005, they responded to more than 99% within 30 days. Harrington's time to answer telephone calls varied from 18 seconds in November to 80 seconds in October. Harrington missed its accuracy targets in December and January but exceeded them in February.
- *Walgreens Health Initiatives*: Walgreens' time to answer telephone calls was 18 seconds for the first quarter. Walgreens exceeded its claims accuracy target in the first quarter but did not meet its targets in turnaround time for retail paper processing and for the mail order pharmacy.
- *RAN+AMN Network*: The network does not have measures regarding appeals or telephone response time. They met their goals regarding maintaining their network and responding to ADOA inquiries.
- *Arizona Foundation Network*: The network does not have measures regarding appeals or telephone response time. They met their goals regarding maintaining their network and responding to ADOA and member inquiries.
- *Schaller Anderson Network*: The network does not have measures regarding appeals or telephone response time. They met their goals regarding maintaining their network and responding to ADOA and member inquiries.
- *Schaller Anderson - Disease Management*: The program does not have measures regarding appeals or payment accuracy. Anderson's self-reported time to answer telephone calls was less than 1 second.

Arizona Department of Administration/Government Information Technology Agency - Quarterly Report on HRIS Implementation – The favorable review of the expenditure plans for the Human Resources / Payroll System, formally known as the Human Resources Information Solution (HRIS), requires the Arizona Department of Administration (ADOA) and the Government Information Technology Agency (GITA) to report quarterly on project progress.

The contractor has concluded development of the HRIS system. While the contractor achieved all contractual milestones by May 2004, ADOA was withholding a portion of its payment pending the completion of certain system components. With one exception, the contractor finished programming these final HRIS modules. These systems

include employee self-service, project management, employee performance appraisal, a data warehouse, and a hiring gateway.

The contractor did not deliver the ad-hoc reporting service for HRIS. By mutual agreement, ADOA and the contractor revised the contract to eliminate this requirement and the associated payments to the contractor. Instead, the department will use the recovered \$2.9 million to develop this functionality in-house.

ADOA is continuing to test and systematically deploy various features to increasing numbers of users. GITA believes this process is progressing smoothly.

Concerning HRIS development, this quarterly report is the final one. GITA will require ADOA to demonstrate the savings described by the HRIS project justification through quarterly reports on state agencies' use of the system. JLBC Staff also continues to work with ADOA to identify savings. Any further HRIS upgrades will require a new project justification from ADOA to GITA.

Attorney General - Quarterly Report on Expenditures from Appropriation for Crane Lawsuit – In September 2001, 7 school districts filed the Crane lawsuit, which claimed that the current Arizona school finance system is unconstitutional because it does not provide at-risk students with programs and funding needed in order to meet state academic standards. In FY 2004, the Legislature appropriated \$500,000 to the Attorney General for legal fees incurred by outside counsel in defending the state.

Pursuant to Laws 2003, Second Special Session, Chapter 4, the Office of the Attorney General is required to report on a quarterly basis to the JLBC the amount expended from the appropriation for the Crane lawsuit. As of March 31, 2005, a total of \$466,047 has been spent. Of this amount, \$457,072 was spent on outside legal services, \$4,525 was spent on expert witnesses, and \$4,450 was spent on external printing. The agency spent a total of \$27,023 since last quarter's report. The remaining unexpended amount is \$33,953.

State Banking Department - Report on FY 2005 General Fund Revenues – According to a footnote in the General Appropriation Act, the State Banking Department is required to submit a report to JLBC by March 1, 2005 that compares General Fund revenues generated in FY 2005 through February 1, 2005 to the comparable period in FY 2004. The report is also required to include the additional revenues generated by the new FTE Positions appropriated by the Legislature.

In the FY 2005 General Appropriation Act, the State Banking Department received \$82,000 to fill two vacant FTE Positions in the Examinations Department, and it was expected that the department would generate an additional \$220,000 in General Fund revenue from examinations. The following table displays the information provided in the report from the State Banking Department:

Banking Department			
FY 2004 and FY 2005 General Fund Revenues Thru February 1			
	<u>Exam Fees</u>	<u>Exam Penalties</u>	<u>Total</u>
FY2005	\$509,575	\$71,700	\$581,275
FY2004	<u>497,205</u>	<u>34,100</u>	<u>531,305</u>
Change in GF Revenue	\$12,370	\$37,600	\$ 49,970 ^{1/}

^{1/} The department reports that the General Fund revenue generated by the new FTE Positions is \$14,235.

To date, the department has generated an average of \$72,700 in General Fund revenue per month from examinations in FY 2005. If this average holds, the department should generate approximately \$872,400 in General Fund revenue from examinations and penalties during FY 2005. During FY 2004, the department generated a total of \$764,600 in General Fund revenue from examinations and penalties. Based on these numbers it is estimated the department will generate \$107,800 more General Fund revenue from examinations and penalties than in FY 2004. The estimated increase in General Fund revenue is \$112,200 lower than the estimated amount.

The department reports that the lower than expected General Fund revenues are a result of the inability to hire one additional Examiner FTE Position and personnel issues that required Examiners fill vacancies in other departments. The department expects revenues to continue to increase as personnel issues are remedied and when they are successful in hiring the additional Examiner.

Arizona Community Colleges - Report on Dual Enrollment Courses – Pursuant to A.R.S. § 15-1821.01, the Arizona Community Colleges are required to report on dual enrollment programs offered in the prior fiscal year. The FY 2004 report includes the following highlights:

- 31,971 students were dual enrolled
- 770 courses were offered, of which 287 courses were classified as Academic and 483 were Occupational
- Courses were offered at 191 locations in 9 community college districts
- 30,775 students, or 96% of those enrolled, completed the course
- 29,410 students earned a C or better, qualifying those students for both high school and community college credit
- 2,926 freshman and sophomore students were dual enrolled

Arizona Community Colleges - Annual Report – Pursuant to A.R.S. § 15-1427, the Arizona Community Colleges are required to report on their progress during the previous year. The FY 2004 report includes the following summary information on the state system:

- 193,556 students (headcount) were enrolled for credit, resulting in a Full-Time Student Equivalent count of 115,600
- 91% of enrolled students resided within the district, while 9% did not reside within the district
- Total number of instructors employed was 9,508, of which 2,185 (23%) were full-time and 7,323 (77%) were part-time
- Total revenues were \$790.5 million, and total expenditures were \$760.3 million

In addition, each district has provided a description of their major accomplishments in FY 2004.

Cochise

- Received \$777,000 nursing workforce diversity grant
- With UA-South, received a \$3 million grant to improve baccalaureate degree achievement
- Created Center for Southwest Studies
- New Nogales Center, with services in Santa Cruz Cty

Coconino

- With Navajo, received a \$2.5 million grant to enhance internet/instructional television services
- Implemented Forensics Certificate Program
- Launched 32 web courses
- Dine College IGA, with services in Tuba City

Graham

- Began development of on-line courses
- Began construction on High-Tech building

Maricopa

Chandler-Gilbert

- With ASU, received \$400,000 engineering grant
- Received \$47,000 grant from Intel

Estrella Mountain

- Implemented e-learning courses

Gateway

- Established Gateway Early College
- Nursing program partnership with Banner Health
- Launched web site

Glendale

- Received \$396,000 grant for Math and Science scholarships
- Built Biotechnology lab

Mesa

- Expanded distance learning offerings
- Created ESL Student Service Center

Paradise Valley

- Established Nursing Program

Phoenix

- Established Histology Technician Program

Rio Salado

- Launched online Nursing Program
- Completed Conference Center

Scottsdale

- Received \$780,000 mathematics grant

- Established Nursing Program
- South Mountain*
- Opened Performing Arts Center
 - Established Small Business Entrepreneur Program

Mohave

- Dental Hygiene Program accredited
- Completed Allied Health building

Navajo

- Began development of on-line student services
- Implemented Critical Care Paramedic Program
- With NAVIT, created pilot Fire Science Program

Pima

- Received \$1 million donation for healthcare programs
- Approved 5 new programs

Pinal

- Established 8 new certificate or degree programs
- Dietetic Technician Program accredited
- Began construction of University Center

Yavapai

- Completed projects as part of \$69.5 million master plan
- Received the following grants: \$8.1 million federal, \$795,000 state, \$4.2 million private

Yuma/La Paz

- Launched third district television channel
- Received \$480,000 grant for distance learning
- With NAU, received \$5.3 million grant to improve minority and low-income student education

Arizona Community Colleges - Report on Workforce Development Expenditures – The Arizona Community Colleges are reporting on their previous year’s workforce development plan activities and expenditures.

A.R.S. § 15-1472 requires each community college district to establish a workforce development account. Monies in the account are derived from Proposition 301 sales tax revenues and shall be used for workforce development and job training, including expenditures for: 1) partnerships with businesses and educational institutions; 2) additional faculty; 3) technology and equipment; 4) student services for new and expanded job opportunities; and 5) property and new construction, remodeling, or repair of facilities.

The table below presents total FY 2004 workforce development revenues and expenditures and a brief description of key expenditures by district. Total revenues in FY 2004 were \$11,560,300 and total expenditures in the same year were \$10,468,400. The table does not include \$1 million in revenues received by the Coconino County Community College District to provide matching capital funds for the Page campus pursuant to A.R.S. § 15-1463. In addition, the table does not include revenues or expenditures for Dine College or Tohono O’odham Community College. Revenue figures are as reported on the State Treasurer’s Web site.

The table also provides information on contributions the community college districts received from the private sector to promote workforce development. Total private sector contributions in FY 2004 were estimated to be \$9,585,600.

Arizona Community Colleges				
FY 2004 Workforce Development Revenues and Expenditures				
District	FY 2004 Revenues	FY 2004 Expenditures	Key Expenditures (Over \$100 K)	Private Sector Contributions
Cochise	\$ 578,500	\$ 451,400	Avionics faculty – \$124 K	\$ 0
Coconino	347,600	347,600	Nursing faculty and administration – \$111 K	177,900
			Vocational faculty and administration – \$104 K	
Graham	411,400	258,300	Interactive television technology – \$139 K	0
Maricopa	5,847,700	5,465,100	Faculty – \$2.8 M	3,013,600
			Rapid response to new economy – \$2.5 M	
			Development of small business – \$200 K	
Mohave	404,100	385,900	Upgrade computer technology – \$244 K	1,157,400
Navajo	443,200	455,000	Cosmetology faculty – \$113 K	546,500
			Nursing assistant faculty – \$112 K	
Pima	1,989,600	1,658,300	Aviation faculty and equipment – \$311 K	4,398,900
			Teacher education program startup – \$203 K	
Pinal	495,000	480,200	Dean of Workforce and Economic Development;	89,600
			Three Workforce Development offices – \$262 K	
Yavapai	483,700	423,800	Office of Economic Development – \$169 K	43,900
Yuma/La Paz	559,500	542,800	Workforce skill development – \$424 K	157,800
TOTAL	\$11,560,300	\$10,468,400		\$9,585,600

Arizona Criminal Justice Commission - Report on State Aid to County Attorneys Fund and the State Aid to Indigent Defense Fund – Pursuant to A.R.S. § 41-2409E, the Arizona Criminal Justice Commission (ACJC) is required to report on the expenditures of monies in the State Aid to County Attorneys Fund and State Aid to Indigent Defense Fund by January 8, 2005. Monies in the funds are distributed to counties based on a statutory formula that uses population and criminal case filings. ACJC reports that counties used the monies in three main areas: additional staffing to process more cases, equipment purchases to improve case management, and contracts for outside services to improve criminal case processing. The legislation establishing the funds and the reporting requirement included a legislative intent section that set timelines for criminal case processing. The ACJC report states that many agencies have been able to decrease case processing times as a result of the Fill the Gap funding; however, due to increasing caseloads and recent Supreme Court rulings, the report indicates that these funds are insufficient to meet case processing time guidelines. Progress in criminal case processing times could not be established due to incongruent definitions and reporting standards between the agencies.

Department of Economic Security - Report on Arizona Works Pilot Program – Pursuant to A.R.S. § 46-342, DES has provided reports submitted by MAXIMUS, the program contractor for the Arizona Works program, along with comparable DES data, for December 2004 and January 2005. This job placement pilot serves clients in District I-E, which generally covers the eastern part of Maricopa County.

In January 2005, MAXIMUS placed a total of 136 Arizona Works clients in full-time paid employment in District I-E, an increase of 14% from the January 2004 figure of 119. (Over the same time period, the total number of District I-E Arizona Works clients placed by MAXIMUS in all new employment placements, including unpaid work experience and community service positions, increased 12%.) In January 2005, the number of DES JOBS clients placed in full-time paid employment in the rest of Maricopa County decreased by 31% from the January 2004 figure, to 255 from 367 clients. (Over the same time period, total DES JOBS clients placed in all new employment placements in the rest of Maricopa County, including unpaid work experience and community service positions, decreased 20%.) As we have noted previously, because of potential differences in the demographic and economic makeup of both regions, one cannot necessarily draw conclusions about the relative effectiveness of both programs from this data.

Arizona Department of Environmental Quality - Report on Arizona Alternative Testing and Compliance Study – Pursuant to Laws 2000, Chapter 404, the Department of Environmental Quality has submitted the final progress report for the Arizona Alternative Testing and Compliance Study (AZTACS). The purpose of this study is to research and evaluate the feasibility and effectiveness of alternative technologies to identifying high pollutant vehicles and requiring their repair prior to

entrance into the Phoenix or Tucson metropolitan areas. AZTACS is also required to evaluate and identify methods to improve motorist compliance with existing and alternative emissions inspection programs.

The progress report submitted by the Eastern Research Group provides an update on study activities performed by the contractor during the last year. However, it does not include any findings or recommendations. Statute requires that the final report containing findings and recommendations be submitted by September 30, 2005.

Governor's Office of Strategic Planning and Budgeting - Report on Federal Revenue Maximization Initiative – Pursuant to a General Appropriation Act footnote, the Governor's Office of Strategic Planning and Budgeting (OSPB) has submitted its quarterly report on the status of a Federal Revenue Maximization Initiative. To date, there are 7 projects completed, all designed to increase federal Title XIX Medicaid reimbursement. This includes 1 project completed since the last report, an AHCCCS project drawing down about \$5.3 million in enhanced administration funding. The total \$9.3 million in estimated savings does not include currently unknown savings for Arizona State Hospital (ASH) inpatient hospitalization or Medicaid in the Public Schools (MIPS) audiology services.

In addition to these projects, the summary lists 12 ongoing projects. Included in these numbers are 3 DES projects with new developments from the prior report:

- *Increased Title IV-E Administrative Claiming and Targeted Case Management:* The report notes that the savings estimate associated with the Title IV-E portion is now \$1.8 million; the vendor is attempting to submit a claim at the end of FY 2005 for retroactive claims. The enacted budget incorporates half of these \$1.8 million of savings into the FY 2006 DES budget.
- *Title IV-E Funding for Out of Home Placement:* The report notes that the savings estimate is now \$1 million; the vendor is attempting to submit a claim at the end of FY 2005 for retroactive claims. The enacted budget incorporates half of these \$1 million of savings into the FY 2006 DES budget.
- *Program for Children With Special Needs Ages 0-5:* The report notes that AHCCCS and DES are exploring the feasibility of developing a waiver for children ages 0-5 meeting special needs requirements in which all services would be provided through one agency. There is no other detail provided in the report, other than a final report is due in October 2005.

In a related development, in December 2004 the Executive Branch awarded a contract to the auditing firm PRG Schultz as part of the Efficiency Review process. The contract is for "recovery auditing," in which PRG Schultz will audit state contracts for overpayments and contract oversights. The state will pay PRG Schultz 15% of all disbursement errors recouped, 25% of savings from contract compliance issues, and 15% of all Medicaid-related savings.

Department of Racing - Semi-Annual Report on Boxing Events and Revenue – Pursuant to a General Appropriation Act footnote, the Department of Racing is required to report semi-annually on the number of boxing events, gross receipts, state revenues, and license fee collections. The department submitted its latest report on February 15, 2005.

Between June 30, 2004 and December 31, 2004, a total of 21 boxing events have been held in Arizona. During that time period the total gross tax receipts and license fee collections were \$30,021, and the state received \$12,000 of additional revenue by way of an Intergovernmental Agreement with Indian tribes.

Arizona State Retirement System - Semi-Annual Report on the ASRS Information Technology Plan – Pursuant to a footnote in the General Appropriation Act, the Arizona State Retirement System (ASRS) is submitting its semi-annual report on the ASRS Information Technology (IT) project. ASRS received a FY 2005 appropriation of \$9,051,900 from the State Retirement System Administration Account to continue implementing the ASRS IT Plan. Through December 31, 2004, ASRS has spent \$637,917 of this appropriation. ASRS also received appropriations in FY 2002, FY 2003, FY 2004 totaling \$27,100,600, and through December 31, 2004, ASRS has spent a total of \$18,735,900. Therefore, as of December 31, 2004, ASRS has \$16,778,700 in unspent appropriations from FY 2002 through FY 2005 for the ASRS IT plan.

Recently, there have been some concerns raised as to the progress of the IT plan. An Independent Advisory Consultant (IAC) raised concerns on two of the projects, the Public Employees Retirement Information System (PERIS) and the Financial Management System (FMS). These concerns caused GITA to change the project status from “green,” indicating the project is expected to be completed as planned, to “red,” indicating a serious risk to project phase completion by the planned date.

The concern with PERIS revolved around the difficulty implementing the Service Purchase application and ASRS was asked to consider the elimination of in-house development in favor of buying the products. ASRS has indicated that they have since fully implemented the application and intend to continue with in-house development. The issue with the FMS was a misunderstanding with a vendor that has been resolved. The Information Technology Authorization Committee (ITAC) is working with an internal ASRS review team to monitor the project status and a new IAC is evaluating the project. On April 27, 2005, ITAC decided to reconsider the project status after a 4-week review by the new IAC.

Department of Revenue - Report on Tobacco Tax Revenue Collections – The Department of Revenue (DOR) received an additional \$900,000 from the General Fund and 14 FTE Positions in the FY 2005 General Appropriation Act for tobacco tax enforcement. DOR estimated that the 14 FTE Positions would increase annual revenue by \$1.8 million. In June 2004 the Appropriations Chairmen asked DOR to provide an interim progress report with regard to their revenue

collection efforts by March 1, 2005 and a final report by July 31, 2005. The reports were to include the actual increased revenue collected as a result of the 14 new FTE Positions, as well as the actual revenue collected due to the 7 base budget FTE Positions.

On April 26, 2005 DOR reported that they filled and trained the 14 new FTE Positions in August and September 2004, and that 5 of the 7 base budget FTE Positions are filled. DOR reports \$888,000 of combined tobacco tax enforcement revenue in the first 8 months of FY 2005, which includes both the base budget FTE Positions and new FTE Positions. The \$888,000 includes \$638,000 to the General Fund from penalties on seized tobacco products and \$250,000 paid through March 1, 2005 on \$3 million of tobacco tax audit assessments. DOR reports that on average 95% of tobacco tax audit assessments are collected. The following table shows the results for the first 8 months of FY 2005 compared to FY 2004.

	FY 2004	FY 2005
Penalties to General Fund	\$ 54,000	\$638,000
Audit Payments ^{1/}	<u>0</u>	<u>250,000</u>
Total	\$ 54,000	\$888,000

^{1/} Approximately 13.56% to the General Fund, 1.69% to the Corrections Fund, and 84.75% to the Tobacco Tax and Health Care Fund.

In addition, DOR reports that overall tobacco tax collections increased \$7.6 million through March 1, 2005 due to increased public awareness of enforcement activities, from \$179.9 million in FY 2004 to \$187.5 million in FY 2005. The \$187.5 million in FY 2005 includes the \$250,000 of audit payments, but does not include the \$638,000 of penalties to the General Fund. DOR does not have data on cigarette purchases by Arizona residents over the Internet. DOR reports that since about March 2005 national credit card companies no longer handle transactions with Internet tobacco sellers. As a result, DOR expects the significance of Internet tobacco sales to decline.

Department of Revenue (DOR) - Report on Ladewig Expenditures – In March, DOR mailed 413 warrants totaling \$281,800 as a result of taxpayer mail or referrals from unclaimed property. DOR’s monthly status report shows expenditures of \$23,700 for Ladewig in March 2005 for administrative costs. Expenditures totaled \$131.6 million for the first 9 months of FY 2005, out of DOR’s estimated total of \$134.7 million for FY 2005. The following table summarizes these items.

	DOR’s Estimate ^{1/}	Through March 2005
DOR Administration	\$ 3,000,000 ^{2/}	\$ 1,513,700
Plaintiff Attorneys	6,000,000	6,121,500
Taxpayer Payments	<u>125,700,000</u>	<u>123,984,100</u>
Total Expenditures	\$134,700,000	\$131,619,300

^{1/} Reported by DOR at the August 17, 2004 JLBC meeting.
^{2/} JLBC favorably reviewed \$3,000,000 to fully fund DOR’s estimated administrative costs in FY 2005 at the June 29, 2004 JLBC meeting.

The Ladewig Settlement Budget Reconciliation Bill (Laws 2004, Chapter 285) allocates \$120 million in FY 2005 to the department for payments and costs associated with the case of Ladewig v. State of Arizona, with any unused amount to be held in reserve for future payments. DOR has made those payments above \$120 million from the tax refund account in the General Fund. This is based on the provision of Laws 2004, Chapter 285 which states that “DOR shall draw all amounts necessary pursuant to the authority prescribed in A.R.S. § 42-1117 for the payments and costs.”

Department of Revenue - Report on Business Re-engineering/Integrated Tax System (BRITS) – BRITS is the new computer system being implemented by the Department of Revenue (DOR) to integrate their separate tax systems, improve enforcement, and increase revenues to the state. Given the importance of this issue, in April 2003 the Appropriations Chairmen asked DOR to provide quarterly reports on the additional revenue received from implementing BRITS. The implementation of BRITS began in FY 2003 with the awarding of the contract to Accenture, LLP on August 20, 2002. BRITS is expected to be completed in FY 2007, for a total cost of \$133,664,700 including an estimated \$11,000,000 in interest. Accenture will finance the cost of BRITS, and will be paid from the increased revenues generated by BRITS.

DOR had problems with the transaction privilege tax (TPT) conversion to BRITS in January 2004, which delayed other BRITS conversions as shown in the following table. DOR reports that they have addressed the major TPT conversion issues, but that collection tasks are not fully functional and billings are still being checked before they are sent out. DOR reports that the withholding tax was converted in October 2004 with no significant issues.

Projected Tax System Conversion Dates for BRITS		
Tax System	Projected Date	Revised Date
Corporate Income Tax	September 2004	September 2005
Individual Income Tax	September 2006	Late 2006

The department expects the delays to have no impact on total cost, since BRITS is a fixed price contract. However, DOR states that any enhancements that the department may want that are different than the original contract will be reviewed for both impact and potential cost. DOR reports that BRITS delays and resource reallocations for correcting BRITS problems have adversely impacted the revenue generating program.

Summary of BRITS Costs		
	Through 3/31/05	Total Project
Consulting Services	\$55,830,900	\$101,250,700
Hardware/Software	11,870,800	21,414,000
Interest	<u>3,726,700</u>	<u>11,000,000</u> ^{1/}
Total	\$71,428,400	\$133,664,700

^{1/} DOR estimates interest will cost from \$9 million to \$13 million.
Summary of BRITS Additional Revenues – Through 3/31/05

BRITS has generated additional revenue, but not as much as projected. Accenture has been paid \$25.5 million through March 31, 2005 for increased collections. This amount is \$12.1 million below the projected payment at this point in the contract. The state/county/city have received \$4.5 million, \$2.1 million less than projected. BRITS revenues are further behind the goals than they were as of December 31, 2004, when payments to Accenture were \$8 million below the projected amount and the state/county/city had received \$1.4 million less than projected. The following tables summarize BRITS costs and additional revenues through March 31, 2005.

	FY 2003	FY 2004	FY 2005	Total	Projected Total	Over/(Under) Projection
General Fund	\$ 73,600	\$ 1,855,000	\$ 1,995,200	\$ 3,923,800		
County/City	26,200	146,700	273,300	446,200		
Education	<u>9,800</u>	<u>44,200</u>	<u>77,700</u>	<u>131,700</u>		
Subtotal	\$ 109,600	\$ 2,045,900	\$ 2,346,200	\$ 4,501,700	\$ 6,641,800	\$(2,140,100)
Accenture	<u>620,900</u>	<u>11,593,700</u>	<u>13,295,200</u>	<u>25,509,800</u>	<u>37,636,400</u>	<u>(12,126,600)</u>
Total	\$ 730,500	\$13,639,600	\$15,641,400	\$30,011,500	\$44,278,200	\$(14,266,700)

Supreme Court - Report on Arizona Lengthy Trial Fund – Pursuant to A.R.S. § 21-222(E), the Supreme Court is required to report annually on the amount of monies collected and expended as well as the number of jurors receiving monies from the Lengthy Trial Fund (LTF). Eligibility of funding is limited to jurors serving on trials lasting in excess of 10 days. Reimbursement of funds is limited to not more than: \$100 per day for trial days 4 through 10 and \$300 for trial days 11 and above. The minimum juror reimbursement is \$40 per day.

Effective January 1, 2004, the Administrative Office of the Courts (AOC) established a \$15 filing fee for civil complaints, answers and requests to intervene. Monies from the filing fee are deposited into the LTF. Due to the effective date of the imposed fees, expenditures of monies to eligible jurors

requesting reimbursement was delayed to lengthy trials occurring after July 1, 2004. Revenues for the 12 months ended December 2004 totaled \$613,600, while reimbursement requests for 8 months ended February 2005 amounted to \$75,400. Of the \$75,400 expended from the LTF, \$73,964.43 reimbursed jurors and \$1,452 was paid to jury Commissioners. In total, 23 LTF-eligible trials existed and 80 (or 29%) of the 276 eligible jurors sought payment. Requests for reimbursement were made by 30 jurors serving on criminal trials and 50 jurors serving on civil trials totaling \$40,708.07 and \$33,256.36, respectively. Jury Commissioners are paid \$18 from the LTF for each juror who files claim on LTF monies within their county.

University of Arizona - Report on Final Pay Plan – A footnote in the FY 2005 General Appropriations Act required the Arizona Board of Regents (ABOR) to report on the distribution of \$16.1 million appropriated for university pay increases in FY 2005. ABOR reported in October 2004 that it allocated monies among the universities by providing \$1,000 for each full-time equivalent staff position.

The University of Arizona (UA) received \$6.4 million to allot among its faculty and staff. UA chose to give a \$1,000 salary increase to classified staff and service professionals, as well as to use the remaining monies for merit adjustments among its other employees. However, the university was not able to report the final allocation of its pay plan monies at that time.

UA is now reporting the final distribution of its \$6.4 million. The university set aside \$5.6 million for personal services and \$0.8 million for employee related expenditures. Faculty and other academic professionals received \$2.0 million, while other staff received the remaining \$4.4 million. All salary increases took effect on July 1, 2004. The following table details the final UA pay plan.

Department of Weights & Measures - Report on FY 2005 General Fund Revenues – Pursuant to a footnote in the General Appropriation Act, the Department of Weights and Measures is required to submit a report to JLBC by March 1, 2005 comparing General Fund revenues generated in FY 2005 through February 1, 2005 from civil penalties and the licensing of timing devices and meters compared to the comparable period in FY 2004. The report is also required to include the additional revenues generated by the three additional FTE Positions appropriated by the Legislature in FY 2005.

In the FY 2005 General Appropriation Act, the department received \$123,200 from the General Fund to fill three vacant inspector positions. The 3 positions were projected to generate an additional \$630,000 in General Fund revenue from civil penalties and the licensure of timing devices and meters. The table below displays the information provided by the department.

The department has generated an average of \$217,250 in General Fund revenue each month. Based on this average, it is estimated that the department will generate \$2,607,000 in General Fund revenue. During FY 2004, the department generated \$2,073,400 in General Fund revenue. If revenues continue to be collected at this rate, the department will generate \$533,600 more General Fund revenue in FY 2005 than in FY 2004.

The department believes, however, that it will still meet its \$630,000 revenue goal by the end of the fiscal year. This is mainly due to an increase in licenses from timing devices and meters. The department has been in the process of developing licensing guidelines for certain types of timing devices and meters and has recently began licensing some of these devices.

University of Arizona Pay Allocation						
Eligible Employee Categories	# of FTE Positions in Category	# of Receiving FTE Positions	PS per FTE Position	PS Allocation	ERE Allocation	TOTAL Allocation
Classified Staff	\$2,645.6	\$2,273.9	\$1,063.81	\$2,419,000	\$362,800	\$2,781,800
Administrative	346.4	319.7	1,397.25	446,700	67,000	513,700
Faculty	1,953.3	1,373.7	1,104.97	1,517,900	227,700	1,745,600
Service Professional	519.9	495.9	2,011.70	997,600	149,600	1,147,200
	<u>249.1</u>	<u>220.5</u>	<u>1,000.00</u>	<u>220,500</u>	<u>33,100</u>	<u>253,600</u>
TOTAL	\$5,714.2	\$4,683.7	\$1,196.00	\$5,601,700	\$840,200	\$6,441,900

Department of Weights and Measures FY 2004 and FY 2005 General Fund Revenues thru February 1			
	<u>Civil Penalties</u>	<u>License Revenue</u>	<u>Total</u>
FY2005	\$339,100	\$1,398,900	\$1,738,000
FY2004	<u>184,500</u>	<u>1,291,300</u>	<u>1,475,800</u>
Change in General Fund Revenue	\$154,600	\$ 107,600	\$ 262,200 ^{1/}

^{1/} The department reports that the General Fund revenue generated by the new FTE Positions is \$89,850.